

*Financial Services Sector Coordinating Council for  
Critical Infrastructure Protection and Homeland Security*

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**Written Testimony of  
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Critical Infrastructure Protection and Homeland Security  
Before the  
Committee on Government Reform  
Subcommittee on  
Government Management, Finance and Accountability  
United States House of Representatives**

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## **INTRODUCTION**

Chairman Platts, Ranking Member Towns and Distinguished Members of the Subcommittee on Government Management, Finance and Accountability, thank you for inviting me to testify today about the progress made over the past four years in improving the ability of the financial services infrastructure in the United States to sustain its operations in the event of a wide-scale disaster. I am Donald F. Donahue, and I currently serve as Chairman of the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (the “FSSCC”), an industry group dedicated to infrastructure protection efforts.

I am also Chief Operating Officer of The Depository Trust & Clearing Corporation (“DTCC”), and President and COO of two of its key operating subsidiaries, The Depository Trust Company and National Securities Clearing Corporation. DTCC is the largest private post-trade financial services infrastructure in the world, and provides clearance, settlement and information services for two and half million securities issues from the United States and 100 other countries and territories, including equities, corporate and municipal bonds, government and mortgage-backed securities and over-the-counter derivatives.

## **BACKGROUND ON FSSCC**

I should begin with an explanation of who the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security is and what role it plays in the financial services sector’s infrastructure protection efforts. The FSSCC was established by the financial services sector in the Spring of 2002, in response to encouragement from the Department of the Treasury, as a means of coordinating within the sector to address infrastructure protection activities. The FSSCC’s mission statement states that it seeks to

Foster and facilitate the coordination of financial services sector-wide voluntary activities and initiatives designed to improve Critical Infrastructure Protection and Homeland Security

FSSCC currently has 33 members, consisting of many of the key industry infrastructure organizations and trading markets and a broad array of industry trade associations, representing an estimated 8,000 financial institutions; a list of these members is attached to my written testimony.

FSSCC’s principal responsibility is to coordinate infrastructure protection activities across the sector. There are a number of initiatives that individual sector infrastructures and associations have launched over the past four years to support the sector’s response to the challenges of this “post 9/11” world. FSSCC has sought to avoid duplicating or creating conflicts with all of that work. Instead we’ve sought to coordinate it – for example, to link up similar efforts to address a particular problem to generate a consolidated solution that provides greater value for the sector and the nation, to ensure

that best practices developed in one area get publicized to other parts of the sector so that all get the benefit of them, or to synchronize the crisis management actions planned across the sector so that information needed for decisions flows to decision makers and information about those decisions flows out to those needing it on a timely basis. As I will discuss later, FSSCC has very real achievements to point to on each of those examples.

## **OUR FEDERAL PARTNERS**

It's important first to set the context for the discussion of these achievements, however, by describing the very effective partnership between the sector and its key Federal counterparts that has been the basis for them. Most particularly, the strong relationship the sector has formed in this area with the Department of the Treasury, the "sector specific agency" for Banking and Finance under Homeland Security Presidential Directive Seven, has been the essential foundation for many of the accomplishments at the sector level in promoting infrastructure protection. The leadership of the Treasury's Office of Critical Infrastructure Protection on this issue has been invaluable in a number of the industry's key achievements – particularly in the establishment and growth of the sector's revamped Information Sharing and Analysis Center, the creation of ChicagoFIRST and other sector regional coalitions to promote coordinated business recovery capabilities, dissemination through the sector of "best practice" information countering the rising number of "phishing" attacks, development of a sector agenda for research and development initiatives to promote infrastructure protection, particularly in the cybersecurity area, and other efforts.

Although Treasury, as our "sector specific agency," is our primary governmental counterpart, the sector also is forming an effective relationship with the Department of Homeland Security ("DHS"), and will continue to work with DHS – in coordination with the Treasury – to support its infrastructure protection initiatives. We also have effectively worked with the financial regulatory bodies – FSSCC's public sector counterpart, the Financial and Banking Information Infrastructure Committee, and the individual agencies – to help them to formulate and implement appropriate regulatory standards in this area.

The agencies' *Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System* identified what sector members view as the "benchmark" for resilience, and those sector members subject to these standards are meeting the required time frames to address their implementation. DHS has stressed in its own publications the critical importance of a vibrant public-private sector partnership in achieving the nation's infrastructure protection objectives; we believe the public-private sector partnership that has operated so successfully in financial services is an exemplary illustration of what such partnerships can achieve.

## FINANCIAL SECTOR ACCOMPLISHMENTS

Earlier this year FSSCC published its report *Protecting the U.S. Critical Financial Infrastructure: 2004 in Review*; copies of the report have been made available to the Committee. Let me mention a few examples of the financial services sector's accomplishments identified in that report:

- First and foremost, the sector has been very successful in promoting broader participation in the Financial Services Information Sharing and Analysis Center (the FS/ISAC), the sector's mechanism, founded in 1999, for sharing critical information about physical and cyber security threats and vulnerabilities to help protect the U.S. critical financial infrastructure. The FS/ISAC, which had 66 members prior to the launch of the revamped FS/ISAC late in 2003, reports that it now has 1,749 participants, plus an expanded reach through the sector's trade associations approaching nearly 10,000 firms. FSSCC and its members have worked hard to support growth in the ISAC's participation. Several FSSCC member associations, for example, have joined the ISAC and redistributed its notifications to their members. Others have communicated repeatedly with their members to promote ISAC participation. The American Bankers Association has directly enrolled members to receive ISAC alerts (about 700, in ABA's case), as has my own organization.
- Sector members have implemented several capabilities promoting more effective disaster recovery coordination in regions critical to financial services. For example, ChicagoFIRST, a regional coalition formed by financial services institutions in the Chicago area, has dramatically improved coordination within the financial sector and between the sector and State and local governmental authorities in Illinois to respond much more effectively in crisis situations. ChicagoFIRST has sponsored several very successful disaster recovery simulation exercises, and also tested its capabilities in a real situation when a Chicago bank experienced a serious fire in its headquarters building. Other regions have implemented similar coalitions (for example, in New England and Minnesota), and FSSCC and its members are working with the Department of the Treasury to promote this model in other areas of the country.
- Several FSSCC member associations and organizations have put into effect standing structures of "crisis management" conference calls that would permit association members to coordinate among themselves in the event of a disaster – these types of calls were very effective in addressing problems in the sector's payment and settlement systems during the days following September 11<sup>th</sup>. The experience of the blackout in the Northeast in August 2003, however, made clear that the numbers of crisis management calls and the lack of any coordination across these different call structures could impair their effectiveness and impede information flows needed to make timely decisions about how to respond to the emergency. During the ensuing months FSSCC worked with key member associations to coordinate the creation of a unified structure of emergency calls so

that calls were timed in a way to reduce conflicts and feed information into decision-making processes in an effective way.

These are a few examples of the accomplishments the report highlights.

As the report makes clear, the Council's own initiatives seek to build upon and leverage the very strong record of efforts by the financial services industry generally to respond to the infrastructure protection challenges of this "post 9/11" environment.

- My own company – DTCC – for example, has aggressively moved over the past several years to put in place a far more resilient infrastructure supporting our functions in the financial markets, even though we continued to operate without interruption during September 11<sup>th</sup> and the following days, completing more than \$1.8 trillion worth of financial transactions that week.
- The industry's other "core clearing and settlement organizations" – handling payment and securities and derivative settlement transactions – have implemented a variety of steps since September 11<sup>th</sup> to reinforce the resilience of their operations, ranging from the same type of duplicated and regionally dispersed operations my company has implemented to reciprocal backup arrangements between organizations and similar steps. The trading markets have similarly implemented reinforced business continuity and infrastructure protection programs. For example, a quick walk through the intersection of Wall and Broad Streets in downtown Manhattan will give you a very graphic illustration of the New York Stock Exchange's extensive efforts to protect its physical facilities. In addition, key trading markets have thought through reciprocal arrangements permitting one market to trade another market's financial instruments in an extreme situation where the latter market was completely unable to operate.

These efforts have been a major focus of attention for all of these organizations over the past years, and have improved what was already a very high level of resilience in the financial service industry's infrastructure. The sector is to the point where I am very confident of our ability to operate with minimal disruption even under very severe circumstances. Notwithstanding these very substantial successes, we all remain strongly committed to this effort. To this end, the FSSCC convened this past Friday a working group of all of these core organizations to discuss how we can collaborate to generate further improvements and to benefit from our experiences so that we can do so in the most cost-effective way possible.

- In parallel to the work of the core industry market and infrastructure organizations over the past several years, individual firms and banks have implemented similar improvements to their own capabilities to withstand the consequences of an emergency situation. Sector trade associations – the Financial Services Roundtable/BITS, the Futures Industry Association, the Securities Industry Association, and many others – have helped to organize their members' efforts,

both to improve resilience practices and to test those improved practices; much detail regarding all of these initiatives is set forth in the Appendix to FSSCC's report for 2004. There has been considerable sharing of "best practices" as those have evolved, with several of these organizations publishing guides or standard practice manuals to educate their members on "state of the art" business continuity practices.

- There has been a particular focus on the issue of telecommunications resilience – the weak spot revealed on September 11<sup>th</sup> that necessitated the four-day closure of the equities markets. Industry participants have developed and shared a wealth of information on how the financial services industry can improve the resilience of its telecommunications connectivity – for example, the ***Guide to Business-Critical Telecommunications Services*** published by the Financial Services Roundtable/BITS, the ***Report of the Assuring Telecommunications Continuity Task Force*** of the Payments Risk Committee of the Federal Reserve Bank of New York, and the ***Financial Services Task Force Report*** to the President's National Security Telecommunications Advisory Committee. All of these have been made available on FSSCC's website, along with FSSCC's own summary and guidance to financial institutions on this issue (a copy of which is attached to my written testimony).
- Similar efforts are under way to identify and publicize industry "best practices" on ensuring power resilience, employee safety and security issues, and other topics. These efforts illustrate both the financial services industry's strong response to the lessons of September 11<sup>th</sup>, and the positive role the FSSCC has played in coordinating activities across the sector to maximize the benefit the financial services industry and its customers, the people of the United States, derive from these efforts.

## FINANCIAL SECTOR TESTING EFFORTS

As successful as the industry has been in developing and implementing improved business continuity practices, it is, of course, essential that we test those practices to ensure that they will work when needed. Again, I believe the financial industry's commitment to testing these new procedures has been exemplary. My own organization has required its key members to test annually since 2003, and other industry infrastructure organizations have followed similar approaches. Industry associations have also worked with their members to conduct testing programs over the past several years.

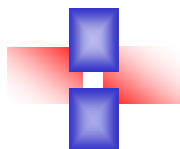
A particularly notable example of this is the test planned for October 15<sup>th</sup> that is concurrently sponsored by the Futures Industry Association, the Securities Industry Association and The Bond Market Association. In this test, participants in the futures and securities industries will operate from their backup centers and test interactions with key markets and market infrastructures to ensure that they are able to connect to those infrastructures and submit and receive transactions with them. More than 200 of the

major financial institutions are expected to participate in this test, providing broad coverage of market activity – the participants for the futures industry, for example, represent more than 95% of all activity with the U.S. futures markets. FSSCC is sponsoring a discussion among its members about a comparable test on the payment systems side in 2006, building on the ongoing programs each payment system has for testing with its members to conduct a coordinated test across the whole payment system infrastructure.

## **CONCLUSION**

The financial services industry has responded strongly and effectively to the new challenges of business continuity in the “post 9/11” world. We have done this because of our very clear understanding that we are responsible for the financial assets of 270 million Americans and for their ability to continue to conduct their financial affairs. The people of our industry take this responsibility very seriously. This Committee and the Congress can rest assured that the financial services sector is and will continue to be resilient and strongly prepared for future emergency situations.

Thank you again for the opportunity to testify at this important hearing about financial sector resilience. I would be pleased to answer any questions you may have.



## ***Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security***

### **Membership (as of September 15, 2005)**

- America's Community Bankers
- American Bankers Association
- American Council of Life Insurers
- American Insurance Association
- American Society for Industrial Security (ASIS) International
- BAI
- BITS/The Financial Services Roundtable
- ChicagoFIRST, LLC
- Chicago Mercantile Exchange
- CLS Group
- Consumer Bankers Association
- Credit Union National Association
- The Depository Trust & Clearing Corporation (DTCC)
- Fannie Mae
- Financial Information Forum
- Financial Services Information Sharing and Analysis Center (FS-ISAC), LLC
- Financial Services Technology Consortium
- Futures Industry Association
- Independent Community Bankers of America
- Investment Company Institute
- Managed Funds Association
- The NASDAQ Stock Market, Inc.
- National Association of Federal Credit Unions
- National Association of Securities Dealers (NASD)
- NACHA — The Electronic Payments Association
- New York Board of Trade (NYBOT)
- The Clearing House
- Securities Industry Association (SIA)
- Securities Industry Automation Corporation (SIAC)
- The Bond Market Association
- The Options Clearing Corporation
- VISA USA Inc